

FEDERAL HIGHWAYS FUNDING ACT OF 2005 (SAFETEA-LU): WHAT IT CONTAINS AND WHAT IT MEANS TO MONTANA

EXECUTIVE SUMMARY

Federal Funding

For the two years of the 2007 biennium, the budget for the Montana Department of Transportation (MDT) totals \$1.1 billion, with 56 percent comprised of federal funds. Federal funding for highways comes from multi-year authorizations through the U.S. Department of Transportation. The latest federal authorization that provides federal-aid highways and transit funding, the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), was approved in August 2005 and replaced the Transportation Equity Act of the 21st Century (TEA-21), that expired on September 30, 2003. SAFETEA-LU provides funding for federal fiscal years 2005 through 2009. After factoring in historical obligation limitations, Montana stands to receive an average of \$329 million per year under formula programs and high priority earmarked projects of SAFETEA-LU, compared to the annual average of \$251 million received under TEA-21 for similar funding categories. For formula programs and high priority earmarked projects of SAFETEA-LU the average annual funding would grow by \$78 million or 31 percent over the funding for similar programs of TEA-21.

In addition to the funding for formula programs and high priority project earmarks, Montana would receive totals of \$56 million for transit grants to local transit operators and \$231 million of other earmarked funding over the life of SAFETEA-LU. Not all of the funding for the other earmarked projects directly benefits highway systems under the responsibility of MDT. Much of the funding would be directed to university research programs, local entities, and other federal agencies.

Earmarked Funding

In total, earmarks designated for Montana account for \$395.3 million over the life of SAFETEA-LU. With assumed obligation limits of 92 percent, Montana stands to receive \$1.5 billion in non-earmarked funding for highways over the life of SAFETEA-LU, or \$1.9 billion from all federal-aid funding. Earmarked funding accounts for nearly 21 percent of all funding Montana would receive via SAFETEA-LU. Earmarks will impact various state and local governments differently, but all earmarks will impact future funding from the federal highway trust fund by adding to an imbalance between revenues and expenditures. Earmarks can be grouped into three types:

- Funding for projects in MDT's current construction plan that would have no noticeable impacts on other projects or department planning (\$248.6 million)
- Funding for projects that were not previously anticipated by MDT, not included in the current construction plan, and might impact other projects or cause a reprioritization of department resources, but any impacts are unknown at this time (\$69.6 million)
- Funding for projects or programs outside MDT's realm of control (\$77.0 million)

Growth May not be Fully Realized

Montana received favorable treatment under SAFETEA-LU, receiving 2.2 times as much federal-aid back from the federal highway trust fund than are collected in the state through federal fuel and highway use excise taxes. As stated, federal-aid for formula programs and earmarks for high priority projects stands to grow by an average of \$78 million per year or 31 percent over TEA-21 levels. Because of recent inflationary trends with construction materials, fuel, and equipment; other regional factors; and uncertainty associated with the delay in a long-term reauthorization of TEA-21, the funding growth may be partially or wholly offset by higher construction costs.

Status of Federal and State Highway Trust Funds

Expenditures from both the federal highway trust and state highway special revenue funds are projected to exceed revenues into the funds in the foreseeable future. In the federal highway trust fund, which provides the funding for federal-aid for highways, projections indicate that the balance will be nearly depleted when SAFETEA-LU is up for reauthorization. A stressed federal highway trust fund could mean potential reductions of federal-aid for state highways or pressures to increase highway user fees for drivers. For Montana, reductions of federal-aid for highways could mean either reductions of highway construction activities or higher state funding for construction. A reduction of highway construction could lead to degradation of the state highway system. More state funding of projects would worsen the structural imbalance of the state highway fund, the balance of which is projected to be depleted in FY 2009.

Eventually, Montana highway users may be asked to either live with lower quality highways and reduced highway services or pay more to maintain the current condition and services of the highway system. Addressing funding for Montana's highways will also be an issue Montana policy makers will face in the near future. During the current biennium, the financial condition of the state highway fund will be adequate to finance planned highway construction and match all federal funding result from SAFETEA-LU. However, the adequacy of the fund to match all federal funding and maintain current spending and revenue policies is in question in the 2009 biennium and beyond.